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SUBJECT: AUSTRALIAN CAR INDUSTRY BENEFITS FROM INCENTIVES

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11. (SBU) The Australian car industry has experienced a recovery in vehicle sales due to a range of government policy initiatives. While imports account for 85% of the Australian market, local producers Ford, GM Holden and Toyota have nevertheless benefited from economic stimulus policies and particularly from the May Budget decision to extend the business investment allowance to cars. The motor vehicle industry is also benefiting from improved consumer and business confidence. END SUMMARY.

OUTLOOK FOR THE AUSTRALIAN CAR INDUSTRY

12. (SBU) The Australian car industry experienced one of its best months of on record in June 2009 fuelling new hopes that the Australian economy may yet avoid recession. (Note: June is usually a good month due to companies seeking purchase vehicles before the end of the fiscal year on June 30. End note.) New motor vehicle sales hit 102,850 in June 2009, up 36% from May and only 3.5% below the June 2008 record. This was driven largely by business purchases aiming to beat the end of the financial year, which surpassed private car sales for the first time since 2004. Sales of passenger cars and SUVs also registered a second successive month of growth in May, suggesting the worst of the downturn in the motor vehicle industry has passed. Sales hit a low of 70,400 in March (down 22.4% from a year earlier). With demand recovering, a total of 75,470 vehicles were sold in May (down 12.6% from a year earlier). The biggest turnaround has been in commercial vehicles: utilities, panel vans and trucks, which had fallen 24.8% in April 2009. However, there was an 11.3% jump in May following a generous increase in investment allowances for small business in the May budget. Sales in June were only 8.3% below their level of a year ago. Toyota was the market leader over the first 6 months of 2009 with 94,233 vehicles (of which 15,031 or 16% were manufactured locally) compared to 56,152 for Holden (28,440 or 50.6%) and 46,456 for Ford (25,281 or 54.4%). Overall, the share of local producers (Ford, Holden and Toyota) fell from 16% to 15% in the first half of 2009, compared to the same period a year earlier. Mitsubishi had stopped producing cars by 2009, having built just under 3,000 units in the first half of 2008. The two U.S. car producers, Ford and Holden have weathered the economic downturn reasonably well with a fall in sales in the first half of 2009 of 10.8% and 12.6% respectively - compared to a fall of 35% for Toyota's locally produced sales. Importers now dominate the Australian vehicle market and imports from Thailand

(with which Australia signed an FTA) now exceed the total for local manufacturer (see table above). Overall, Japan is the dominant supplier to the Australian market with 36% of imports and 39% of the total market (locally produced sales plus imports) in addition to imports sourced from Japanese subsidiaries in Thailand.

POLICY APPROACH ON THE CAR INDUSTRY

13. (SBU) The Government first introduced a 10% temporary tax break for new business investment last October in its first response to the financial crisis. This increased to 30% in February 2009 and, in the May budget, to 50% for small businesses with a turnover of \$2 million or less. The deadline for the scheme has been extended from June to December. The Australian Taxation Office estimates that the allowance enables a business to claim total tax deductions of \$42,885 on the purchase of a \$70,000 motor vehicle. Previously, it would only have been able to claim depreciation of \$14,295. The industry also benefited from improved consumer and business confidence in Australia.

Table 1: Vehicles Sales in Australian Market (no.,%)

Source	June	YTD 08	June	YTD 09	Change (%)
Locally made					
Ford	28,345	25,281	-10.8		
Holden	32,556	28,440	-12.6		
Toyota	23,158	15,031	-35.1		
Total local	87,000	68,759	-21.0		
Imported					
Japan	202,313	162,769	-19.5		
Korea	53,230	55,136	+3.6		
Thailand	84,496	72,949	-13.7		
Total imported	455,695	386,464	-15.2		
Total market	542,695	455,223	-16.1		

Source: Federal Chamber of Automotive Industries

IMPACT OF POLICY INCENTIVES ON CAR SALES

14. (SBU) The Rudd government's decision to extend the investment allowance to cars for the first time was a reaction to the fall of 6.1% in business investment in the March quarter and has impacted on higher commercial car sales to reverse this trend. Australian business generally took advantage of the last months of the 30% investment allowance rate (which ended on 30 June 2009) to bring forward vehicle expenditures. Small business (with turnover below A\$2 million) also brought forward expenditure on cars to take advantage of a 50% tax break, which will continue to run to end of 2009. In addition, firms and individuals have benefited from the Government's series of economic stimulus packages and concessions to small business to allow phased payment of tax in some cases. Australian Chamber of Commerce and Industry (ACCI) Acting Chief Executive Greg Evans says the business tax break for new plant and equipment purchases is helping to foster investment. "The specific elements of the Government's stimulus package have also contributed to an improvement in confidence amongst retailers as well as spurring an upswing in housing activity." Industry Minister Kim Carr noted that sales to business were 12% higher than they were a year ago. Senator Carr said the boost to Australia's car sales had been achieved much more efficiently than in Europe, where governments have launched expensive programs to encourage people to sell their old cars to the wreckers.

15. (SBU) COMMENT: The impact of the Rudd government's temporary and generous incentives to business to buy new vehicles has been both quick and significant. It is as yet unclear how annual sales figures will be affected by the policy initiatives as some sales were brought forward to take advantage of tax incentives - although the industry has benefited from the short run stimulus. END COMMENT.